

# City of Detroit

## CITY COUNCIL

IRVIN CORLEY, JR.  
FISCAL ANALYST  
(313) 224-1076

FISCAL ANALYSIS DIVISION  
Coleman A. Young Municipal Center  
2 Woodward Avenue, Suite 218  
Detroit, Michigan 48226  
FAX: (313) 224-2783  
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN  
ASSISTANT FISCAL ANALYST  
(313) 224-1076

TO: James Coon, Director  
Public Lighting Department

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 30, 2007

RE: 2007-2008 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2007-2008 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General  
Roger Short, Finance Director  
Pamela Scales, Budget Director  
Ervin Stewart, Budget Manager  
Kandia Milton, Mayor's Office

## **Public Lighting Department (38)**

### **FY 2007-2008 Budget Analysis by the Fiscal Analysis Division**

#### **Summary**

The Public Lighting Department (PLD) is a General Fund agency. The Public Lighting Department generates and purchases electrical power, maintains street and alley lights, traffic signals, and the electrical distribution system. The department operates the Herman Kiefer heating plant that supplies heating steam to the Kiefer complex and three Detroit Public Schools. The department assists in the operation and maintenance of the Police and Fire communication system.

The 2007-2008 recommended Net Tax Cost is \$3.99 million, a \$7.5 million decrease over the current year.

The capital program, which is financed with G.O. bonds, is recommended at \$7 million, a \$5.9 million decrease over the current year.

#### **2006-2007 Surplus/Deficit**

The Budget Department has projected that the PLD will end the fiscal year with a surplus of \$4.39 million. There is a projected revenue surplus of \$1.45 million due to additional sales of electricity and a \$2.94 million appropriation surplus due to savings because of implementation of "DVAR". (Note: some description of the DVAR contract is provided PLD's response to question 8 in last year's responses attached.)

#### **Overtime**

The department's overtime budget for the current fiscal year is \$2.43 million.

As of March 31, 2007, the department has spent \$2.54 million on overtime.

The recommended 2007-2008 overtime budget is \$2.39 million. The history of overtime spent for the last eight fiscal years is as follows:

2005-06	\$3.40 million
2004-05	\$3.38 million
2003-04	\$3.76 million
2002-03	\$5.4 million
2001-02	\$5.1 million
2000-01	\$5.75 million
1999-00	\$5.9 million
1998-99	\$4.9 million
1997-98	\$6.2 million

#### **Personnel and Turnover Savings**

Following is information by appropriation comparing budgeted FY 2006-2007 positions, March 31, 2007 filled positions and FY 2007-2008 recommended positions.

Appropriation/Program	Budgeted Positions FY 2006-07	Filled Positions 03/31/2007	Mayor's Budget Positions FY 2007-08	Over/(Under) Actual to 06/07 Budget	Mayor's Recommended Turnover
<b>Public Lighting (38):</b>					
380010 General Administration	5	4	5	(1)	\$ -
380020 Production Control	1	1	1	0	\$ -
380030 Inspection & Control	3	3	3	0	\$ -
380040 Claims Office	2	2	2	0	\$ -
380060 Stores & Warehouse	0	1	0	1	\$ -
380070 Plant Protection	0	0	0	0	\$ -
<b>00123 General Administration</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>0</b>	<b>\$ -</b>
380090 Engineering Administration	6	5	6	(1)	\$ -
380100 Street Lighting Design	0	3	0	3	\$ -
380110 Traffic Signal Design	0	4	0	4	\$ -
380120 Trans. & Dist. Design	5	5	5	0	\$ -
380130 Substation Design	4	4	4	0	\$ -
380140 Under. Fac. Maps & Records	3	3	3	0	\$ -
<b>00127 Engineering</b>	<b>18</b>	<b>24</b>	<b>18</b>	<b>6</b>	<b>\$ 29,878</b>
380100 Street Lighting Design	4	0	4	(4)	\$ -
380150 Supervision	3	3	3	0	\$ -
380160 Construction	18	13	18	(5)	\$ -
380170 Maintenance	14	15	14	1	\$ -
380180 Cables	17	15	17	(2)	\$ -
380190 Conduit	11	10	11	(1)	\$ -
380200 Street Lighting Maintenance	12	10	12	(2)	\$ -
<b>00128 Construction &amp; Maintenance</b>	<b>79</b>	<b>66</b>	<b>79</b>	<b>(13)</b>	<b>\$ 165,989</b>
380210 Operating Administration	3	3	3	0	\$ -
380220 System Testing	2	2	2	0	\$ -
380230 Electrical System Control	10	10	10	0	\$ -
380250 Electrical Maintenance	10	9	10	(1)	\$ -
380260 Building Maintenance	0	0	0	0	\$ -
380270 Traffic Signal Maintenance	0	11	0	11	\$ -
380275 Plant Protection	11	0	0	(11)	\$ -
<b>00129 Operating Division</b>	<b>36</b>	<b>35</b>	<b>25</b>	<b>(1)</b>	<b>\$ 45,929</b>
380280 Heat & Power Administration	7	6	7	(1)	\$ -
380290 Testing & Instrument Maint.	8	8	8	0	\$ -
380300 Mechanical Operations	33	29	33	(4)	\$ -
380310 Mechanical Maintenance	12	11	12	(1)	\$ -
380320 Power Plant Yard Operation	4	4	4	0	\$ -
380340 Kiefer Heating Plant	4	3	4	(1)	\$ -
<b>00131 Heat and Power Production</b>	<b>68</b>	<b>61</b>	<b>68</b>	<b>(7)</b>	<b>\$ 204,939</b>
380110 Traffic Signal Design	4	0	4	(4)	\$ -
380270 Traffic Signal Maintenance	11	0	11	(11)	\$ -
<b>12155 Traffic Signals</b>	<b>15</b>	<b>0</b>	<b>15</b>	<b>(15)</b>	<b>\$ -</b>
38XXXX Leave of Absence	0	(6)	0	(6)	\$ -
38XXXX Worker's Comp.	0	(3)	0	(3)	\$ -
38XXXX Unmatched Positions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ -</u>
<b>TOTAL</b>	<b><u>227</u></b>	<b><u>188</u></b>	<b><u>216</u></b>	<b><u>(39)</u></b>	<b><u>\$ 446,735</u></b>

## Significant Changes in Funding

### General Fund

	<b>2004-2005 Actuals</b>	<b>2005-2006 Actuals</b>	<b>2006-2007 Redbook</b>	<b>2007-2008 Rec.</b>	<b>Variance</b>
Salary and Wages	\$ 14,898,355	\$13,799,377	\$ 12,386,975	\$12,455,785	\$ 68,810
Employee Benefits	\$ 9,109,667	\$ 7,857,424	\$ 9,070,297	\$ 8,221,176	\$ (849,121)
Prof Contr. Svcs.	\$ 2,356,561	\$ 142,729	\$ 496,611	\$ 252,330	\$ (244,281)
Operating Supplies	\$ 32,558,879	\$47,950,725	\$ 32,210,810	\$33,420,000	\$ 1,209,190
Operating Services	\$ 10,793,988	\$ 7,689,476	\$ 9,640,768	\$ 8,409,659	\$ (1,231,109)
Capital Equipment	\$ 13,725,682	\$ 6,780,560	\$ 12,550,674	\$ 6,806,770	\$ (5,743,904)
Other Expenses	\$ 1,232,820	\$ 364,249	\$ 12,684	\$ 74,112	\$ 61,428
<b>Total Approp.</b>	<b>\$84,675,952</b>	<b>\$84,584,540</b>	<b>\$ 76,368,819</b>	<b>\$69,639,832</b>	<b>\$ (6,728,987)</b>
<b>Revenues</b>	<b>\$59,894,796</b>	<b>\$57,745,858</b>	<b>\$ 64,831,116</b>	<b>\$65,643,738</b>	<b>\$ 812,622</b>
<b>Net Tax Cost</b>	<b>\$ 24,781,156</b>	<b>\$26,838,682</b>	<b>\$ 11,537,703</b>	<b>\$ 3,996,094</b>	<b>\$ (7,541,609)</b>

### Capital Fund

The recommended G.O. bond sale for PLD decreases by \$5,900,000 to \$7,000,000 and is proposed to be used for system improvements on Belle Isle for a new distribution network and a new 120kv interconnect with ITC at Russell substation and Mistersky power plant.

### **Public Lighting (38)**

Budgeted Professional and	FY 2006- 07	FY 2007-08	Increase
<u>Contractual Services by Activity</u>	<u>Budget</u>	<u>Recommended</u>	<u>(Decrease)</u>
Administration	\$ 55,940	\$ 67,500	\$ 11,560
Engineering	-	-	-
Street Lighting	-	-	-
Traffic Signals	-	-	-
Operating Division	393,671	84,830	(308,841)
Heat & Power Production	47,000	100,000	53,000
Capital Improvements	-	-	-
<b>Total</b>	<b><u>\$ 496,611</u></b>	<b><u>\$ 252,330</u></b>	<b><u>\$(244,281)</u></b>

### Issues and Questions

1. When Council made changes to the 2006-2007 budget prior to voting on it, the \$3 M for central staff services was reduced to –0-. Why was the decision made to budget \$775,000 in that account anyway? Where did the appropriations come from? Why was \$775,000 chosen as the number after \$3 million had been the recommended figure? Was this amount worked into the rates? Why is the 2007-2008 recommended figure \$736,000? What is the basis for this figure? Have you considered using Maximus to determine actual costs that could be applied to the customer's fees?
2. How many months has DVAR system been running in the current year? Is this the reason for the appropriation surplus? Is the DVAR system the reason that the 06-07 fuel account budget was \$6 million lower than 05-06?
3. Please explain the statement made in the budget message about PLD entering into a deal that would sell the "excess" energy produced that would generate \$5 million. It has been explained in prior years that it is more efficient and cheaper for us to buy energy from the grid than it is to produce it at PLD and that the minimum is produced only when there are overloads on the grid. So how could PLD have "extra" power that could be sold? There is no detail on this plan in the Executive Budget.
4. Attached are the questions this office asked last year during budget deliberations and the subsequent responses that the administration provided. In reviewing the responses to questions 3,4 &5, would the annual payment to Edison if PLD did not exist be close to \$43 million? Would there be additional expenses that the city would have to incur?
5. Please explain the philosophy for proposing a fine for citizens who call 311 to ask for the lights that are out to be fixed. How is a citizen to know if a street light or a traffic light is powered through a PLD or Edison line? Are there maps that PLD could give the 311 call center to assist the citizen in determining which light they are referring to so the citizen can be directed to contact Edison if in fact that light is Edison's responsibility?



May 10, 2006

Honorable City Council

**RE: Public Lighting Department response to Fiscal Analysis**

1. Please explain why PLD is a general fund agency is budgeting \$3 million for central staff services?

**In an effort to capture the cost of providing electric and steam services to City residents and businesses, for the first time funds have been allocated for general staff services received by PLD from other city agencies. The estimate was calculated by the Budget Department (\$3 million annually).**

2. Please explain why utility accounts for gas and electricity are increasing over 2000 %. If 2004/05 actuals for gas and electricity was really \$1.8 million, why was only \$136,000 budgeted for FY 2005/06? Why is the electrical account increasing by \$3.2 million when the FY 2004/05 actual was only \$290,500?

**The natural gas market experienced substantial increases across the country last year. In addition the PLD contract for natural gas expired. This contract held the cost of natural gas at \$3.45/MMBTU however, when the contract expired natural gas costs had risen to \$7/MMBTU and was expected to rise to approximately \$15/MMBTU during the winter months. As a result, the department spent more for natural gas during the period indicated.**

**In addition, there was only \$136,300 budgeted in FY 2005/06 "626802 Utilities-Gas because that account is used to pay for gas used to provide hot water and heat for PLD facilities (Grinnell, Mistersky and Witkowski). It was used in error to process payment for natural gas – purchased power. The issue is being addressed by PLD Accounting and Budget.**

3. Currently, what is the number of kwhs used for streetlights and traffic signals? What is the rate per kwh, and what is the total cost?

**The total number of kwhrs for street lighting and traffic signals during FY 2004/05 was 39,801,221 and 10,493,436 respectively, and total cost including full maintenance was \$21,596,951. Streetlights on DTE's system (power supply) use 41,199,375 kwh annually at 0.0582 per kwh, and traffic signals use 408,800 kwh at 0.0797 per kwh.**



4. If the city were to sell or close PLD, what is the total amount of kwhs that the city would have to buy from a supplier to cover the city's street light and traffic signal needs? What would be the rate per kwh in that situation? What would be the amount needed to pay for this line item?

**Using the current DTE rates indicated above, and applying them to PLD kwh for street lighting and traffic signals the costs would be \$2,316,431 and \$836,326 respectively. The department does not know what "other potential suppliers" would charge the City per kwh nor the amount that would be required to cover these related costs under that scenario. Besides the kilowatt-hours that the lights use, there is a cost for replacement parts, materials, and labor to repair the lights, and track the progress.**

5. Again, if PLD was closed, what is the amount of power in kwhs that the City would have to pay for power in city buildings that are used for general fund functions? Again, what would be the dollar amount needed for this line item?

**The total amount budgeted to provide electric service to City agencies during FY 2004/05 was \$16,052,000, and actual collections totaled \$15,668,084. PLD requires about 650,000,000 kilowatt-hours to provide power to its various services. The cost to purchase it would be about \$50 million.**

6. Are all city buildings billed by PLD or just the non-general fund buildings?

**PLD bills all City agencies that are provided electric and/or steam services from PLD.**

7. How much has the city spent in capital costs for upgrades to the PLD system through the years?

**To narrow down the response, PLD has spent a total of \$35,348,876 over the past five (5) fiscal years for infrastructure improvements.**

8. Please explain in detail how a \$5 million piece of equipment is going to save \$17 million in natural gas purchases?

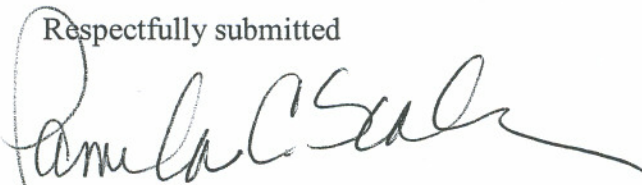
**The DVAR contract facilitates installation of equipment that allows the Mistersky Power Plant to stabilize system voltage at 123v, and thereby operate one of the three units instead of 2. As a result, natural gas usage and related costs will be reduced. Anticipated savings during the first year of operations is estimated at \$8 million (\$1 million per month). However, the actual amount of savings during the fiscal year will depend upon when the equipment installation, test and operations are completed.**

Assuming that the DVAR system becomes operational by November 1, 2006 the estimated natural gas usage for FY 2006/07 would be 944,000 MMBTU, at a cost of \$7,822,000. If DVAR were not operational, the estimated natural gas usage would be 1,735,000 MMBTU at a cost of \$16,570,000.

9. If it is cheaper to buy electricity from DTE than producing it, why did PLD buy \$5 million less in the current year than they plan to in FY 2006/07?

As indicated previously, the increase in natural gas costs had an impact on practically every industry and this includes DTE. Next years increase reflects the DTE increase to PLD.

Respectfully submitted

A handwritten signature in black ink, appearing to read 'Pamela C. Scales', with a long horizontal flourish extending to the right.

Pamela C. Scales  
Budget Director

cc: Kandia Milton, Mayor's Office  
Irv Corley, Fiscal Analysis